

**NORTHERN MADISON COUNTY SANITATION DISTRICT**

**RICHMOND, KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
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FOR THE YEAR ENDED JUNE 30, 2014

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**INDEPENDENT AUDITOR'S REPORT**

To the Chairman and Board of Directors  
Northern Madison County Sanitation District  
Richmond, Kentucky 40475

***Report on the Financial Statements***

I have audited the accompanying financial statements of the business-type activities of the Northern Madison County Sanitation District (hereinafter "the District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements are not affected by the missing information.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated February 6, 2015, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

***Sammy K. Lee, P.S.C.***

Berea, Kentucky  
February 6, 2015

NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2014

<u>ASSETS</u>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 416,203
Restricted cash and cash equivalents	299,274
Accounts receivable, net of allowance	324,590
Accounts receivable - tap on fees	128,596
Prepaid insurance	23,800
<b>Total Current Assets</b>	<u><u>1,192,463</u></u>
<b>Non-Current Assets</b>	
Restricted investments	68,334
Land and construction in process	152,232
Capital assets, net of accumulated depreciation	18,512,094
<b>Total Non-Current Assets</b>	<u><u>18,732,660</u></u>
<b>TOTAL ASSETS</b>	<u><u>\$ 19,925,123</u></u>
<u>LIABILITIES AND NET POSITION</u>	
<b>Current Liabilities</b>	
Accounts payable	\$ 31,573
Accrued payroll liabilities	6,166
Accrued compensated absences	4,224
Accrued interest liabilities	7,200
Other liabilities	879
Current portion of notes payable	428,685
<b>Total Current Liabilities</b>	<u><u>478,727</u></u>
<b>Non-Current Liabilities</b>	
Accrued compensated absences	38,020
Notes payable, net current portion	6,716,529
<b>Total Non-Current Liabilities</b>	<u><u>6,754,549</u></u>
<b>Total Liabilities</b>	<u><u>7,233,276</u></u>
<b>Net Position</b>	
Net investment in capital assets	11,520,945
Unrestricted	803,294
Restricted	367,608
<b>Total Net Position</b>	<u><u>12,691,847</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 19,925,123</u></u>

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>OPERATING REVENUES</b>	
Sanitation services	\$ 1,258,002
Miscellaneous	<u>22,415</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>1,280,417</u></b>
<b>OPERATING EXPENSES</b>	
Utilities and telephone	289,551
Personnel costs	147,528
Repairs and maintenance	88,325
Supplies	65,588
Contractual services	60,484
Laboratory services	21,965
Insurance	20,807
Auto expense and travel	19,664
Miscellaneous	3,233
Rent	3,000
Office expense	1,134
Bad debt expense	38,073
Depreciation	<u>590,113</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>1,349,465</u></b>
<b>OPERATING LOSS</b>	<b>(69,048)</b>
<b>NON-OPERATING INCOME (EXPENSES)</b>	
Interest income	2,009
Interest expense	<u>(89,875)</u>
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<b><u>(87,866)</u></b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b><u>18,818</u></b>
<b>CAPITAL CONTRIBUTIONS</b>	
Development, tax, and grinder fees	<u>46,250</u>
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b><u>46,250</u></b>
<b>CHANGE IN NET POSITION</b>	<b>(110,664)</b>
<b>NET POSITION, beginning of year</b>	<b><u>12,802,511</u></b>
<b>NET POSITION, end of year</b>	<b><u><u>\$ 12,691,847</u></u></b>

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 1,190,787
Other receipts	22,415
Payments to suppliers	(559,680)
Payments to employees	(150,633)

<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>502,889</u></b>
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principal paid on capital debt	(404,523)
Interest paid on capital debt	(90,175)
Development, tax, and grinder fees receipts	46,250
Capital expenditures	(62,684)

<b>NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(511,132)</u></b>
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>2,009</u>
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<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b><u>2,009</u></b>
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<b>NET DECREASE IN CASH</b>	<b>(6,234)</b>
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<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>721,711</u></b>
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<b>CASH AND CASH EQUIVALENTS, end of year <sup>(1)</sup></b>	<b><u><u>\$ 715,477</u></u></b>
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<sup>(1)</sup> **Cash and cash equivalents are reflected in the Statement of Net Position as follows:**

Cash and cash equivalents	416,203
Restricted cash and cash equivalents	299,274
<b>Subtotal</b>	<b><u><u>\$ 715,477</u></u></b>

**Reconciliation of Operating Loss to Net Cash**

**From Operating Activities:**

Operating loss	(69,048)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	590,113
Bad debt expense	38,073
Change in assets and liabilities	
Accounts receivables	(43,549)
Accounts receivables-tap on fees	5,201
Prepaid insurance	(23,800)
Accounts payable	1,436
Accrued liabilities	4,532
Other liabilities	(69)

<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u><u>\$ 502,889</u></u></b>
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**Non-cash capital and related financing transactions:**

Customer list expenditures	(110,000)
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The accompanying notes are an integral part of these financial statements.

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting and reporting policies consistently applied in the preparation of the accompanying financial statements follows:

**Nature of Organization and Activities**

The District was established by Madison County Fiscal Court Ordinance #96.07. The original directors were appointed by the Madison County Judge Executive to operate the Sanitation District at that time. The officers adopted by-laws dated January 7, 1997. The by-laws state that succeeding directors will also be appointed by the Madison County Judge Executive. The Board of Directors are commissioned by the by-laws to control and manage the affairs of the District and shall have all powers authorized by KRS Chapter 220 for directors of sanitation districts.

**Reporting Entity**

The Northern Madison County Sanitation District's financial statements include the operations of all entities for which the Board of Directors exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards. All potential component units were considered for inclusion in the financial statements under the criteria set forth under GASB 14. The District has no identifiable component units.

**Measurement Focus and Basis of Accounting**

For financial reporting purposes, the District reports its operations on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. This measurement focus provides that all assets and liabilities associated with operations are included on the Statement of Net Position.

The accrual basis of accounting is utilized by the District for financial reporting. Under the accrual basis of accounting, income is recorded when earned and expenses are recorded at the time liabilities are incurred. The Statements of Revenues, Expenses, and Changes in Net Position present increases (income) and decreases (expenses) in District's net position.

**Financial Statement Presentation**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for state and local governments require that resources be classified for accounting and reporting purposes into the following three net position categories:

Net investment in capital assets – Consists of capital assets reduced by accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Consists of resources whose use by the District is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – Consists of resources that is not subject to externally imposed stipulations. Unrestricted resources may be designated for specific purposes by action of management or the District's Board or may otherwise be limited by contractual agreements with outside parties.

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of checking accounts and certificates of deposit. Deposits are fully collateralized or vested in securities of the United States government and are identified specifically in the name of the District. For purposes of the Statement of Cash Flows, the District considers all highly liquid cash deposits and cash equivalents with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no non-cash investing, capital, and financing activities during the year.

**Utility Revenue Bond Cash Management and Cash Restrictions**

The District loan covenants requires certain funds be maintained in order to meet the debt service requirements and to provide for unusual repairs and maintenance to the present system. Operation and Maintenance Fund: An Operation and Maintenance Fund must be maintained, from which all costs of operating, maintaining, and insuring District's project shall be paid.

**Accounts Receivable and Allowance for Doubtful Accounts**

Sanitation receivables represent charges for both billed and unbilled customer services due at year-end and are considered fully collectible by the District. Tap-on fees receivables represent receivables associated with development fees. The receivables are reviewed periodically to establish or update the provision for uncollectible amounts. These provisions are estimated based on an analysis of the age of the various accounts.

**Inventories and Prepaid Items**

Inventories and prepaid items comprise operating supplies on hand and unexpired property, plant, and equipment insurance, respectively. Inventories and prepaid items are recorded as an expense when purchased. As of June 30, 2014, inventories on hand were not material and prepaid insurances consists of unexpired insurance coverage.

**Capital Assets**

Capital Assets, includes land purchased, donated, transferred, easements, buildings, improvements, equipment and construction in process are reported in the Statement of Net Position. Purchased property and equipment are recorded at historical costs or at estimated historical costs based upon appraisals or on other acceptable methods when historical costs are not available. Donated capital assets are stated at their fair market values as of the date of the donation. Transferred capital assets are stated at the transferor's carrying value at the date of the transfer. The District capitalizes all buildings, building improvements, and equipment that costs more than \$500 or more with useful lives longer than one year. The cost of normal maintenance and repairs that do not add to the value of capital assets or materially extend capital assets' estimated useful life are expensed in the fiscal year incurred. Accumulated depreciation is reported as a reduction of depreciable capital assets. Depreciation is computed using the straight-line method based on estimated lives of 20-50 years for buildings, 5-20 years for equipment; and 10-25 years for improvements.

**Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the District and its employees are accounted for in the period in which such services are rendered or in which such events take place.

**Long-Term Debt**

Long-term debt is reported net of premiums and discounts. Premiums and discounts are amortized over the term life of the debt to maturity.

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Operating and Non-Operating Revenues and Expenses**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily the provision of services related to the sewer services. Operating revenues include services charges and related fees for the provision of sanitary sewer service as well as miscellaneous fees interconnected to the District's ongoing operations. Operating expenses include all necessary costs related to the performance and administration of the District's ongoing activities as well as depreciation expense on the District's capital assets.

Non-operating revenues and expenses include amortized debt issuance cost, interest income, and interest expense. Capital contributions include development tax and grinder fees with new connections to the District's collection and treatment facilities. Non-exchange transactions, in which the District receives value without giving equal value in exchange, comprise developer contributions.

**Employee Retirement Plan**

Employees of the District participate in the retirement plan through Kentucky Deferred Compensation Program. Contributions to this plan are made on a current basis as required by the plan and are recognized as an expense as incurred.

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tax Status**

The District, as a local government District, is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits and Investments, both restricted and unrestricted consists of the following at June 30, 2014:

<u>Account</u>	<u>Interest Bearing</u>	<u>Restricted</u>	<u>June 30, 2014 Balance</u>
Operating			\$ 42,430
Savings	√		308,339
Savings - Tap on Fees	√		57,911
Savings - Development Fees	√		7,522
Construction Account RD		√	240
CD - KIA Loan	√	√	68,334
KIA Boones Trace	√	√	15,451
CD - North Project	√	√	158,409
CD - Terrill Project	√	√	105,606
CD - Clays Ferry	√	√	19,568
<b>Total</b>			<b>\$ 783,811</b>

**Custodial Credit Risk** is the risk that the District's deposits may not be returned in the event of bank failure. The District is required to maintain its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market. At June 30, 2014, the carrying amount of the District's cash accounts (including certificates of deposit) both restricted and unrestricted was \$783,811 and the bank balance was \$812,650, all of the bank balances were covered by FDIC insurance, or by securities pledged at market in the District's name.

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management believes the District is not exposed to significant interest rate risk on investments. All investments are maintained in certificates of deposit.

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a policy regarding the types of authorized investments that would ensure preservation of the assets, only certificates of deposit and money market accounts are permitted. Management believes the District is not exposed to a significant credit risk.

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of investment in a single issuer. Management does not believe the District is exposed to a significant concentration of credit risk.

**NOTE 3 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment for the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to receivable. At June 30, 2014, accounts receivable was \$502,999 and the allowance for doubtful accounts was \$49,813.

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 4 – CHANGES IN CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2014:

	<u>Beginning Balance 6/30/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2014</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 45,000	\$ -	\$ -	\$ 45,000
Construction in process	107,232		-	107,232
<b>Total capital assets, not being depreciated:</b>	<u>152,232</u>	<u>-</u>	<u>-</u>	<u>152,232</u>
<b>Capital assets, being depreciated:</b>				
Collection systems and equipment	\$ 21,887,070	\$ 62,684	\$ -	\$ 21,949,754
Vehicles	86,752	-	-	86,752
Customer list	-	110,000	-	110,000
<b>Total capital assets, being depreciated:</b>	<u>21,973,822</u>	<u>110,000</u>	<u>-</u>	<u>22,146,506</u>
<b>Less accumulated depreciation for:</b>				
Collection systems and equipment	2,957,546	588,280	-	3,545,826
Vehicles	86,753	-	-	86,753
Customer list	-	1,833	-	1,833
<b>Total accumulated depreciation</b>	<u>3,044,299</u>	<u>590,113</u>	<u>-</u>	<u>3,634,412</u>
<b>Total capital assets, being depreciated, net</b>	<u>18,929,523</u>			<u>18,512,094</u>
<b>Capital assets, net</b>	<u>\$ 19,081,755</u>			<u>\$ 18,664,326</u>

Depreciation expense of \$590,113 was incurred during the year.

**NOTE 5 – INTANGIBLE CAPITAL ASSETS**

Intangible capital assets consist of expenses pertaining to the purchase of a customer listing from the City of Richmond in the amount of \$110,000. The asset will be depreciated using straight line depreciation over a period of 15 years. As of June 30, 2014 the intangible capital asset was \$110,000 and accumulated depreciation was \$1,833. Monthly depreciation expense is \$611.

**NOTE 6 – COMPENSATED ABSENCES**

It is the policy of the District to permit employees to accumulate a limited amount of earned but unused leave benefits which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned, in the financial statements. Upon termination, up to 240 hours of accumulated vacation leave and 960 hours accumulated sick leave will be paid to the employee. As of June 30, 2014, the current liability for accrued compensated absences totaled \$4,224. Non-current liabilities at June 30, 2014 consisted of the following:

	<u>6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/14</u>
Accrued Compensated Absences	\$34,479	\$3,541	\$0	\$38,020

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 7 – LONG-TERM NOTES PAYABLE**

The following is a summary of debt transactions of the District for the year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
KIA Loan	\$ 7,439,737	\$ -	\$ 404,523	\$ 7,035,214	\$ 408,685
City of Richmond	<u>-</u>	<u>110,000</u>	<u>-</u>	<u>110,000</u>	<u>20,000</u>
Total	<u>\$ 7,439,737</u>	<u>\$ 110,000</u>	<u>\$ 404,523</u>	<u>\$ 7,145,214</u>	<u>\$ 428,685</u>

**Kentucky Infrastructure Authority**

Terrill Sewer Project – Note payable due in semi-annual payments of \$8,513 at one percent interest plus a one-tenth percent service fee.

Regional Plant and US 25 Improvements – Note payable due in semi-annual payments of \$224,056 at one percent interest plus a one-tenth percent service fee.

Clays Ferry Project – Note payable due in semi-annual payments of \$7,440 at two percent interest plus a one-tenth percent service fee.

**City of Richmond**

The District has entered into a payment agreement with the City of Richmond. Interest free payments in the amount of \$20,000 to be paid annually for five years and \$10,000 in year six. Payments shall be made on or before the 15<sup>th</sup> day of July commencing July 2014. As of June 30, 2014, remaining balance totaled \$110,000.

Annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	428,685	71,301	499,986
2016	429,417	67,105	496,522
2017	432,881	62,909	495,790
2018	441,438	58,581	500,019
2019	445,780	54,240	480,020
2020-2024	2,205,642	204,459	2,400,101
2025-2029	2,307,765	112,445	2,420,210
2030	453,606	11,821	465,427
Totals	<u>\$ 7,145,214</u>	<u>\$ 642,861</u>	<u>\$ 7,758,075</u>

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 8 – RETIREMENT PLAN**

The District participates in a retirement plan through Kentucky Deferred Compensation Program. If an employee chooses to participate in this program, the District will match the employees' contribution. The District will contribute up to 6%.

The retirement expense for the years ended June 30, 2014, 2013, and 2012 respectively were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Employer's contributions	\$ 3,244	\$ 3,071	\$ 3,188
Employee contribution	\$ 5,300	\$ 4,550	\$ 3,661

**NOTE 9 – OPERATING LEASES**

The District has an operating leases for building space that is renewable on an annual basis at \$250 per month. Total rent expenditures incurred in the fiscal year under these lease totaled \$3,000. The aggregate future rental payments under these commitments are estimated at \$3,000.

**NOTE 10 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for liability, property, and crime damage and for risks related to injuries to employees. Amounts of settlements have not exceeded insurance coverage in the past three years. There have been no significant reductions in insurance coverage.

**NOTE 11 – EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through February 6, 2015, which is the date the financial statements were available to be issued.

**SAMMY K. LEE, P.S.C.**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Chairman and Board of Directors  
Northern Madison County Sanitation District  
Richmond, Kentucky 40475

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated February 6, 2015.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be a significant deficiency as item 2014-001.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Northern Madison County Sanitation District's Response to Findings**

The District's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sammy K. Lee, P.S.C.*

Berea, Kentucky  
February 6, 2015

**NORTHERN MADISON COUNTY SANITATION DISTRICT  
RICHMOND, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2014**

2014-001 Financial Statement Preparation

Condition:

Management does not have personnel in place to prepare a full set of basic financial statements including the notes to the financial statements, in accordance with generally accepted accounting principles (GAAP).

Criteria:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause:

The District does not have a person in place to prepare complete financial statements including the notes to the financial statements, in accordance with generally accepted accounting principles (GAAP).

Effect:

The District does not have personnel with the expertise on reporting necessary to apply generally accepted accounting principles in regards to drafting the financial statements, related disclosures. The ability to recognize and implement new authoritative guidance in regards to financial reporting is outside the scope of management. However Management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements.

Recommendation:

Management should engage the fee accountant to prepare the financial statements including the notes to the financial statements.

Views of Responsible Officials:

Management concurs with and acknowledges the finding. Management understands this will be an ongoing finding until a resolution is established.